Zacks Small-Cap Research

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CrowdGather Inc. (CRWG-OTC)

CRWG: Monetizing its own Forum Advertising Inventory

Current Recommendation	**Neutral**
Prior Recommendation	Outperform
Date of Last Change	01/30/2013
Current Price (02/05/13)	$0.09
Six- Month Target Price	**$0.25**

OUTLOOK

CrowdGather, Inc. is an Internet company that specializes in the development and hosting of forum based Web sites.The firm endeavors to monetize a network of online forums and message boards. Forums remain a much undervalued part of the internet pie with $4.5 billion and CrowdGather is the only public company dedicated to monetizing this area. More page results equate to more revenue as page views have jumped from 12 million to 220 million per month through several mergers. The Company's focus is now on monetizing its own forum advertising inventory as well the termination of the previous Adisn revenue model.

SUMMARY DATA

52-Week High	**$0.50**
52-Week Low	**$0.08**
One-Year Return (%)	**-83.00**
Beta	**0.85**
Average Daily Volume (sh)	**112,084**
Shares Outstanding (mil)	**58**
Market Capitalization ($mil)	**$5**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**34**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**111.3**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2012 Estimate	**N/A**
P/E using 2013 Estimate	**N/A**
Zacks Rank	**3**

Risk Level	**Above Avg**
Type of Stock	**Small-Growth**
Industry	**Internet-Contnt**

ZACKS ESTIMATES

Revenue
(in Thousands of $)

	Q1 (Jul)	Q2 (Oct)	Q3 (Jan)	Q4 (Apr)	Year (Apr)
2010	$53 A	$58 A	$83 A	$116 A	$310 A
2011	$330 A	$463 A	$380 A	$408 A	$1,581 A
2012	$334 A	$468 A	$550 A	$581 A	$1,933 A
2013	$591 E	$424 A	$600 E	$650 E	$2,265 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Jul)	Q2 (Oct)	Q3 (Jan)	Q4 (Apr)	Year (Apr)
2010	-$0.03 A	-$0.02 A	-$.0.01 A	-$0.02 A	-$0.08 A
2011	-$0.01 A	-$0.02 A	-$0.01 A	-$0.02 A	-$0.06 A
2012	-$0.01 A	-$0.01 A	-$0.01 A	-$0.02 A	-$0.05 A
2013	-$0.01 A	-$0.01 A	-$0.01 E	-$0.01 E	-$0.04 E

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WHATS NEW

On December 14, 2012, CrowdGather, Inc., reported financial results for its second quarter and six months, ended October 31, 2012. The Woodland Hills, California based Company reported slightly lower year over year revenues of $423,732 during the three months ended October 31, 2012 compared to revenues of $468,296 for the comparable quarter of 2011.

The year over year decrease in revenue was primarily due to the timing of certain advertising campaigns that occurred in the three months ended October 31, 2011.

Still, during the second quarter of fiscal 2013, the Company's main focus was on the release of its forum advertising marketplace, Adisn.com. As a result of the marketplace release in late October, it did not have any impact on revenue for this reported fiscal period.

However, management expects to realize an initial benefit from utilizing this technology in its current fiscal third quarter 2013, and anticipates that the primary push on the new marketplace will accelerate in calendar 2013 as the Company ramps up efforts to increase engagements from both advertisers and publishers.

Net loss for the quarter fell by $35,665, year over year, to a net loss of $793,398 for the three months ended October 31, 2012. This compares to a net loss of $757,733 for the second quarter of fiscal 2012.

The decrease in net loss for the second quarter of fiscal 2013 was primarily due to the slightly lower year over year revenue.

Based on a weighted average number of basic and diluted common shares of 58.272 million shares, basic and diluted net loss per share for the second quarter resulted in net loss of $0.01 per basic and diluted share during the three months ended October 31, 2012. This compared to a basic and diluted net loss per share of $0.01 on a weighted average number of basic and diluted shares of 58.735 million shares during the three months ended October 31, 2011.

Still, CrowdGather reported a 26.5 percent jump in year over year revenues for the six months ended October 31, 2012 with revenues of $1.014 million during the period. This compares to revenues of $802,332 for the comparable six months of 2011.

The year over year increase in revenue for the six months was primarily due to acquisitions and improved monetization of the Company's existing ad inventory.

Recent acquisitions included Pbnation.com and Yuku.com, the Company's largest network platform.

Gross profit for the first six months of fiscal 2013 increased nearly 44 percent year over year to $995,718, from the $693,592 reported for the same period in fiscal 2012.

This resulted in gross margin jumping to 98.1 percent for the six months ended October 31, 2012 compared to 86.5 percent for comparable quarter of fiscal 2012.

Net loss for the six months improved by $158,542 year over year, to a net loss of $1.470 for the six months ended October 31, 2012. This compares to a net loss of $1.628 million for the first six months of fiscal 2012.

Furthermore, since the first half of the Company's fiscal year tends to be weaker cyclically, management anticipates that CrowdGather's revenues will improve in the fiscal third quarter of 2013.

Based on a weighted average number of basic and diluted common shares of 58.261 million shares, basic and diluted net loss per share for the six months resulted in net loss of $0.03 per basic and diluted share during the six months ended October 31, 2012. This compared to a basic and diluted net loss per share of $0.03 on a weighted average number of basic and diluted shares of 58.484 million shares during the six months ended October 31, 2011.

For the period ended October 31, 2012, CrowdGather reported cash of $1.161 million, working capital of $1.124 million and stockholders' equity of $15.098 million.

Furthermore, it should be mentioned that during October 2012, the Company reached over 175 million monthly page views across all properties and had over 14 million monthly unique visitors according to Google Analytics.

While a sequential decline, the numbers were nearly in line with the previously disclosed estimated range of 180 to 190 million monthly page views for fiscal 2013 based on the Company's efforts to prune non-monetizable content that also conflicts with the Company's terms of service.

The decline in monthly page views was slightly higher than expected in due part to pruning but also because of multiple unexpected outages the Company experienced from hosting portions of its network on Amazon's Web Services (AWS).

Likewise, going forward, AWS outage risk is significantly mitigated since CrowdGather has already moved the majority of its data to a Company maintained network operating center in Los Angeles. Similarly, while the monthly page view traffic is slightly lower than anticipated, the decline will not significantly impact revenue since the reduction is due in part to pruning non-monetizable content.

Still, it should be noted that mobile traffic accounts for about 15% of CrowdGather's monthly network traffic and is increasing. This compares to less than 10% during the comparable period of 2011.

Furthermore, as previously reported, while the Company anticipates that increasing mobile traffic may reduce total monthly page views for fiscal 2013 to a range of 160 to 170 million, it does not expect these reported fluctuations in total traffic, or the ultimate level of traffic after pruning, to negatively impact revenues.

Last, CrowdGather reported that it received a Notice of Allowance from the United States Patent and Trademark Office for a patent application for systems and methods of targeted advertising. The claims underlying this patent relate to a system for generating targeted advertisement recommendations based upon the social momentum between associated keywords.

CrowdGather Aims at Monetizing its own Forum Advertising Inventory

Management expects a solid Q3 and Q4 as they expect to carry the Company's positive momentum into fiscal 2013 as they work toward completing a number of initiatives that should help add to high margin revenue growth.

The Company re-launched its corporate website in an attempt to better position itself for advertisers, forum owners, and prospective investors. The new look and feel features the Company's ad supported business model and the benefits of its network for advertisers, forum owners, and general community users.

Additionally, the Company is focused on deploying the redeveloped ad server obtained during the June 2010 Adisn acquisition in late Q2 fiscal 2013. Management expects the ad server, coupled with the improved quality of the network, will further improve its RPM during fiscal 2013.

CrowdGather estimates that the ongoing removal of non-monetizable content that also conflicts with its terms of service may reduce its total monthly page views by 20 to 30 million, to approximately 180 to 190 million monthly page views network wide. However, the Company does not expect any significant impact on revenues from the reduction and anticipates an immediate lift to RPM.

The Company is in the process of migrating its third-party hosted sites, such as Yuku.com, to its own network operating center, in Los Angeles, California, as part of the Company's risk mitigation and cost savings strategies.

The relocation is anticipated to improve uptime, speed, and stability for its sites, and to also result in savings of $12,000 to $25,000 per month due to the difference between the lower cost equipment lease payments and the higher cost third-party hosting charges.

Finally, as 8 to 10 percent of all of CrowdGather's aggregate page views are mobile, management stated it is beginning to look at its mobile ad inventory and ways to monetize it.

CrowdGather intends to continue to seek other opportunities to acquire strategic properties that are expected to contribute to increased traffic growth for the Company. Zacks estimates are exclusive of any possible contribution from potential acquisitions and investors should be aware that short or medium-term pressure on the shares may exist as several deals were paid for with equity. This can cause increased selling as lock up periods expire and the third party is allowed to sell shares.

Paintball Nation

On May 25, 2011 CrowdGather announced that it has acquired the domain name, website, and assets related to PbNation.com one of the world's largest online paintball communities. According to the 8K the total purchase price for the PbNation.com site and assets is up to $3.2 million, consisting of $1.4 million in cash, 1,149,425 shares of the Company's restricted common shares, and certain additional cash and stock compensation totaling up to $800,000 if certain monthly website visitor traffic milestones are achieved. The number of shares issued was calculated by dividing $1 million by the Company's 10 day volume weighted average share price of $0.87 per share through Friday, May 20, 2011.

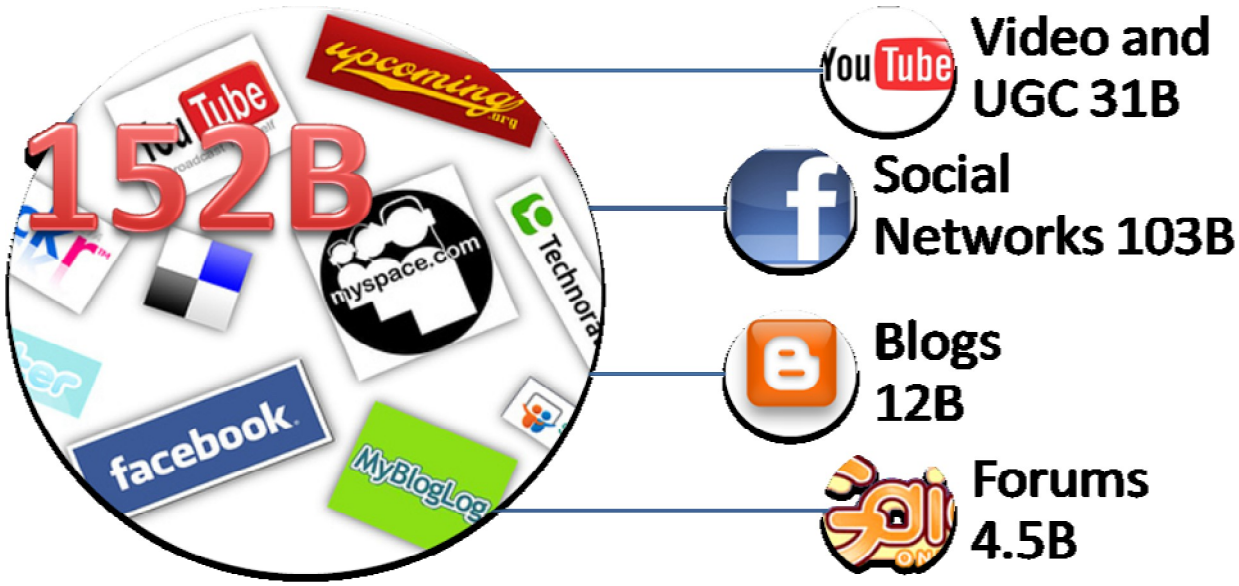
PbNation generates 20 million monthly page views and approximately 1.9 million monthly unique visitors. On a combined basis, the CrowdGather forum network will generate 155 million monthly page views and 15 million monthly unique visitors.

On April 18th before the market opened CrowdGather announced that it has acquired the assets of free forum hosting pioneer, Forumer.com. Forumer, which serves 35 million monthly page views across 200,000 active forums, joins CrowdGather's existing free forum hosting platforms FreeForums.org and Lefora.com in providing a wide range of alternatives to individuals seeking to build communities online. With this purchase, CrowdGather's network traffic has increased 50% this year to 135 million monthly pageviews and 13 million monthly unique visitors. This is up from 100 million monthly pageviews just prior to the transaction and 90 million monthly pageviews at the beginning of calendar 2007. In the simplest terms more page hits equates

to more revenue. According to the 8K the purchase price of the website was $400,000 of which $300,000 was paid in cash and 100,000 shares of CrowdGather common stock.

On March 3rd the firm closed a private placement transaction previously announced on February 28, 2011. Under the terms of the transaction CrowdGather sold an aggregate of approximately 7,136,364 million shares of its common stock at $1.10 per share and warrants to purchase up to approximately 5,352,273 million additional shares of its common stock. The warrants to purchase additional shares will be exercisable at an exercise price of $1.50 per share and are exercisable for 5 years commencing six months and one day following their issue date.

Market Share of Social Media



INVESTMENT THESIS

CrowdGather, Inc. is an Internet company that specializes in the development and hosting of forum based Web sites. It monetizes a network of online forums and message boards to engage, provide information to, and build community around users. The company is in the process of building social, advertising, and user generated content networks by consolidating existing groups of online users that post on message boards and forums. Its forum communities connect people sharing their questions, expertise, and experiences. The company holds approximately 70 Web properties hosting around 44,000 forum communities, as well as a portfolio of 300 domain names. The firm has three areas of expertise.

Premium Communities

CrowdGather acquires forums and provides them with high-quality infrastructure, software and services. Their destination forums allow for precise, targeted campaigns crafted along their verticals and command higher than market level CPMs. CrowdGather retains full control of advertising on these highly trafficked sites. Leading sites include:

Premium Communities	Targeted Vertical
Ngemu.com	Software emulators
Nsider2.com	Nintendo enthusiast community
GenMay.com	Off-topic and humor
Anythingbutipod.com	Consumer electronics media player community
AquaticPlantCentral.com	Aquascapes
Clubxb.com	Scion xB owner community
DemocracyForums.com	Politics
ABXZone.com	Computer help
Zealot.com	Hobby enthusiast forum
MotorcycleForum.com	Motorcycles
Pocketbikeplanet.com	Mini-bike owner society
Wiispace.com	Nintendo Wii enthusiast community
ZuneBoards.com	Microsoft Zune community

Forum Hosting

It also allows third-party forum owners to build their own forums for free on its proprietary free forum hosting platform; in exchange CrowdGather places advertising on these forums or offers subscription based ad-free forum creation and hosting options. There are thousands of sites in this network and it is conducive to cost-effective, large-scale ad campaigns. The primary forum hosting sites owned by CrowdGather are:

- Lefora.com
- Freeforums.org
- Freepowerboards.com
- Makeforums.org
- Eamped.com

Advertising

In coordination with ADISN, CrowdGather's digital media agency, CrowdGather aggregates forums into key verticals to provide brand marketers relevant channels for their advertising including rich-media solutions and campaign analytics. ADISN'sexpertise in targeted dynamic campaigns combined with CrowdGather's expert knowledge in site aggregation and demographic targeting guarantees a brand marketer's message reaches receptive enthusiasts in their network and beyond.

Forums are unique

People are there precisely to discuss products or services, even specific brands. They pose questions to the community, ask for guidance or simply look to connect with people who share their passions. The audience is primed and ready for – even actively seeking – product-specific messages.

Forums remain a much undervalued piece of the internet advertising sales puzzle in part because of fear of negative feedback to a particular brand or company. However, many companies are changing their approach with the advent of social media and there is an increasing interest to listen to consumers and a value placed on the feedback through forums and message boards.[1]68%[2] of active social media users are increasing their use of message boards as a means to communicate on specific topics or to provide feedback and reviews on products or companies. In addition, CrowdGather mitigates the risk of negative brand feedback by providing oversight of their sites.

Those who contribute to online forums are[3]:

- 10 times more likely than non-contributors to also publish a blog.
- 9 times more likely to take an active role in organizing events or meet-ups for group that originally met online.
- 3.5 times more likely to proactively recommend a particular purchase to someone else
- 3.5 times more likely to share links about new products
- 4 times more likely to post online ratings and reviews, and almost twice as likely to share advice -- offline and in person -- based on information they had read online.
- Of the top 20 social networking sites in 2009, 2 of them are message boards: Yahoo Message Boards and Gaiaonline.com.[4]
- 2217% of US Internet users read message boards daily, compared to 11% of US Internet users that read blogs daily[5], 8% that watch videos online and only 6% who use Twitter daily.

With 50 billion posts and 300 million members worldwide,[6] community forums are 5 times larger than the blogosphere. According to Internet Brands user generated content sites are valued at $31 billion and forums represent $4.5 billion of this. CrowdGather remains the only public company dedicated to monetizing this opportunity. Forums have very high leverage and require very little upkeep since nearly all of the content is user generated. Further, the sites are generally staffed by volunteers.

[1] Groundswell Harvard Business School Press; 2008

[2] eMarketer BlogHer and iVillage, "2010 Social Media Matters Study" co-sponsored by Ketchum and The Nielsen Company, April 15, 2010

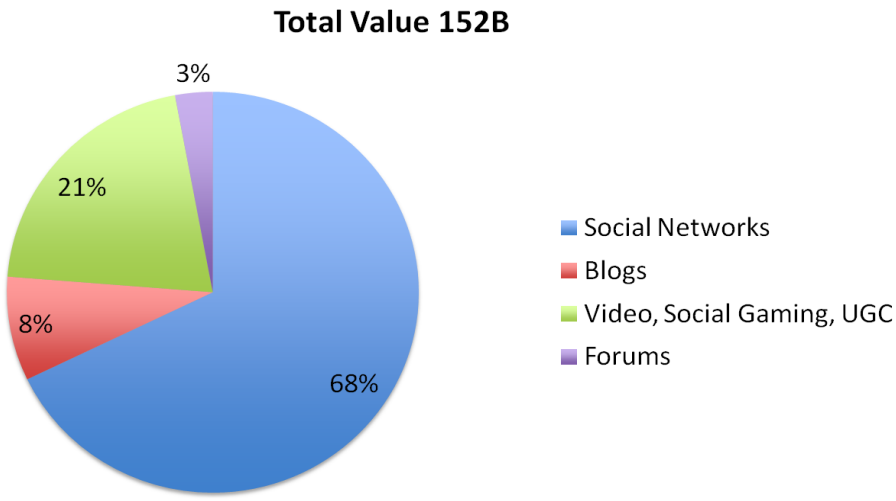
[3] 2010 study conducted by Synovate on behalf of forum marketer PostRelease

[4] Hitwise, "US Data Center," August 14,2009

[5] eMarketer BlogHer and iVillage, "2010 Social Media Matters Study" co-sponsored by Ketchum and The Nielsen Company, April 15, 2010

[6] BoardTracker

Market Share of Social Media



Demographics

The firm has very valuable demographics with

- 67% Male.
- 45% Age 18-34
- 42% Age 35+
- 38% Have Children
- 47% College or Grad School Educated

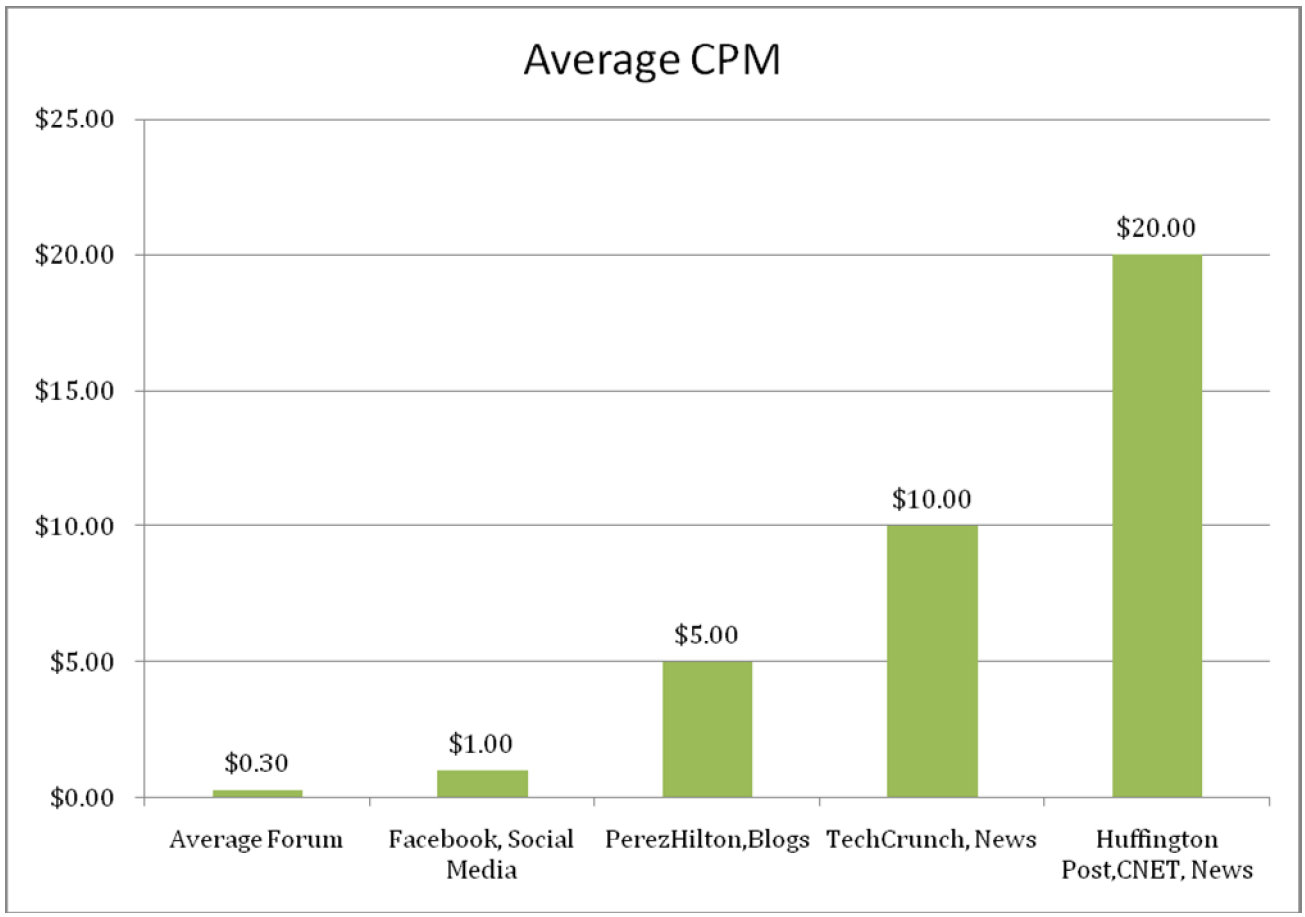
FreeForums
On March 12, 2010, CRWG entered into a website and domain name acquisition agreement with Phil Santoro in which it acquired the website, www.freeforums.org. The total purchase price of the Websites was $1,000,000, which consisted of cash and stock. The Agreement also provides for payment of conditional traffic bonus compensation in the form of an additional $200,000 payable to Santoro in shares of common stock, if, during the following twelve months, the average monthly visitor traffic to the Websites is greater than or equal to 59.13 million monthly page views, as measured by Google analytics.

Adisn
On June 10th 2010 CRWG announced that it acquired Adisn, a next generation Digital Ad Agency that uses relationship data from the social web to enhance targeting, for $5.5 million, the largest acquisition in CrowdGather's history. CrowdGather will issue 4,621,849 shares of common stock for the purchase. Adisn will operate as a wholly owned subsidiary of the Company. Adisn negotiates advertising rates with its customers and then purchases ad inventory from real-time advertising exchanges and online publishers at a lower cost, thus capturing the difference as net revenues. CrowdGather's unfilled ad inventory will also provide zero cost advertising inventory for Adisn's performance campaigns thus generating incremental revenue for CrowdGather. With Adisn, CrowdGather has effectively achieved two objectives: the addition of a sales force for its growing advertising network; and ad server technology that can provide analytics and tracking that are required for higher value advertising campaigns.

Lefora

On July 26, 2010 CrowdGather announced that it had signed a definitive agreement to acquire the technical assets from Lefora, to consolidate CrowdGather's market leadership in the hosted forum market. The CrowdGather network combined with Lefora's hosted forum properties will offer a search engine and social media-friendly network of forum communities that serves over 90 million monthly page views. Lefora has built up a user base of over 100,000 forum communities by virtue of its advanced functionality, combined with the simple user experience. Lefora allows less technical people to start their own community with a form-based editor to set up a forum that is also enabled for social media and search engine optimization. The combination of Lefora's technology and CrowdGather's network and monetization capabilities will make CrowdGather the leader in the hosted forum market by both reach and user experience.

CPM is an internet advertising term that stands for cost per thousand ad views. While the major internet sites such as ESPN, can be as much as $20 CPM forums can be as little as $0.30 to $0.60 this opens the firm up to advertising revenue from both small and large businesses.



According to the Kauffman Index of Entrepreneurial Activity entrepreneurs have remained a strength of the U.S. economy amid one of the worst recessions on record. More entrepreneurs launched new businesses in 2009 than at any other time in the past 14 years. This makes sense from a logical standpoint as well. In the simplest of terms when things get rough entrepreneurs tend to take matters in to their own hands. Small businesses tend to lead economic growth, whereas large firms tend to follow it. Among small businesses, very small businesses (VSB), which the California Association for Micro Enterprise Opportunity (CAMEO) defines as 5 or less employees, come into being to meet immediate and local needs or to develop new or emerging markets by using innovation and technology. They tend to make markets. Large businesses tend to shy away from small or unestablished markets. They most frequently do not make investments until they are fairly certain that markets exist, conducting long studies and spending heavily to break into a market that already has been “pioneered” by smaller and bolder ventures.

VALUATION

While there was dilution in getting from 90 million page views to 220 million, the firm essentially got from 12 million to 90 million with no dilution. With the acquisition of Adisn and Lefora the firm leveraged $6.5 million in equity in exchange for an increase in revenues and page views. That stake was not dilutive given the cancellation of 5 million shares of CEO, Sanjay Sabnani’s beneficial holdings in CrowdGather. Investors that bought the stock at the time essentially got a firm that is debt free, growing page views at 750% (12 million to 90 million), revenues at over 400%, and did not suffer dilution.

Our price target is $0.25 per share, which is derived from the average of our discounted cash flow model and relative valuation model. We assumed a conservative capture of the forum market over a ten year period. We used a growth rate of 20% per year and a discount rate of 11.50%. The purchase price of the forums is approximately $0.26.

The chance of large acquisitions and further dilution is lower, we expect the firm to start building toward breakeven in the coming quarters.

RISKS

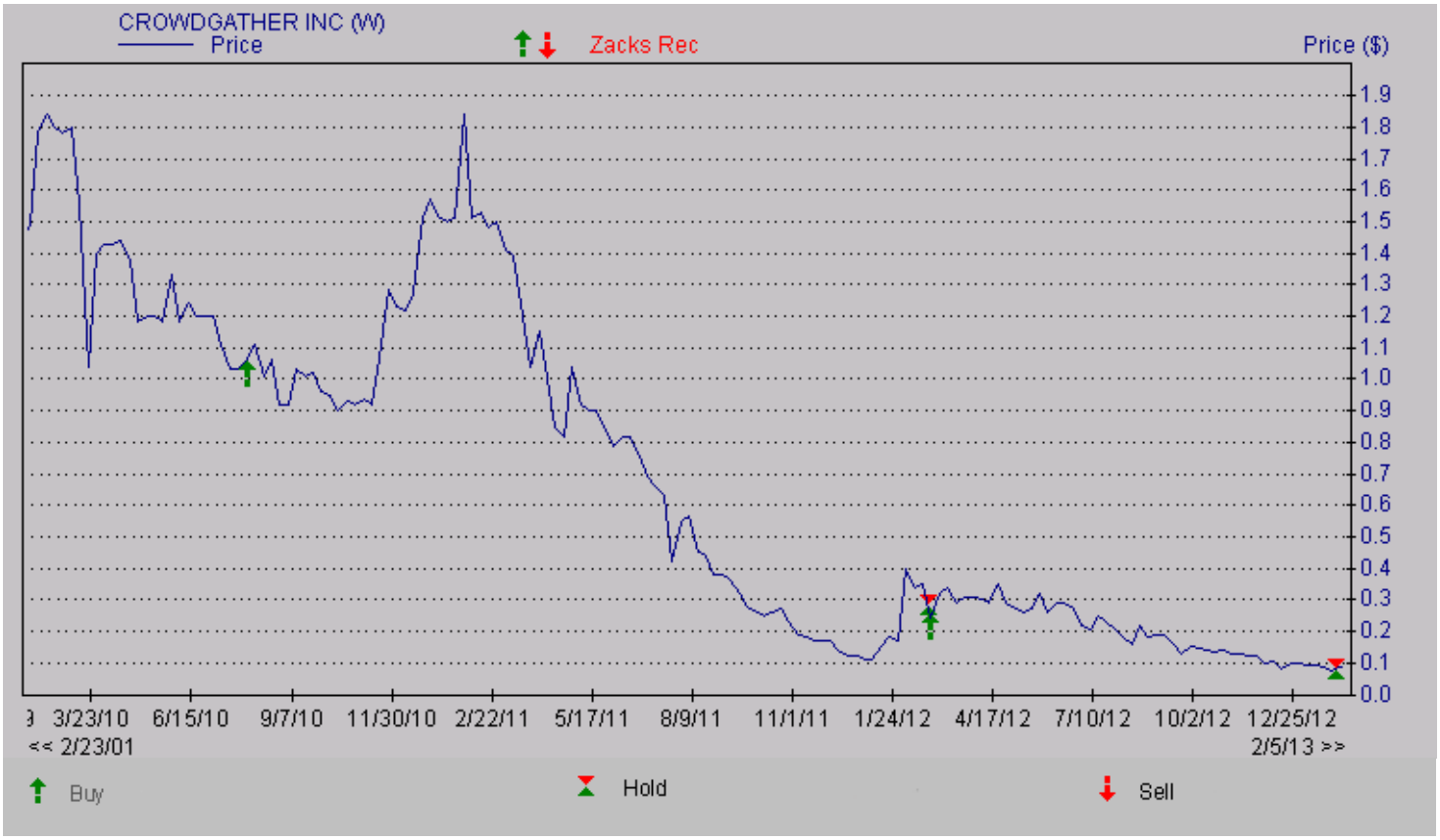
- CrowdGather has a history of losses and will continue to have losses in the near future.
- Equity financing brings the risk of dilution and selling when lock up periods end.
- The firm competes directly and indirectly with well healed companies that have more financial flexibility.

PROJECTED INCOME STATEMENT

INCOME STATEMENT ($ Thousands)	Oct-11 Q2 12	Jan-12 Q3 12	Apr-12 Q4 12	Jul-12 Q1 13 E	Oct-12 Q2 13 E	Jan-13 Q3 13 E	FY 2008	FY 2009	FY 2010 E	FY 2011	FY 2012	FY 2013 E
REVENUE												
Net Revenue	**468.3**	**549.8**	**580.7**	**591.2**	**423.7**	**600.0**	**20.8**	**112.5**	**309.8**	**1581.0**	**1932.8**	**2265.0**
Sequential Growth		*17%*	*6%*	*2%*	*-28%*	*42%*						
OPERATING EXPENSES												
Cost of Revenues	0.00	4.79	7.80	18.55	0.67	1.50	431.5	2489.7	2303.5	775.5	121.3	28.0
% of Revenue	*0.0%*	*0.9%*	*1.3%*	*3.1%*	*0.2%*	*3.2%*						
Gross Profit -	**468.3**	**545.0**	**572.9**	**572.7**	**423.1**	**581.0**	**-410.8**	**-2377.2**	**-1993.7**	**805.4**	**1811.4**	**2423.0**
Proforma Gross Margin	*100.0%*	*99.1%*	*98.7%*	*96.9%*	*99.8%*	*96.8%*	*-1978.7%*	*-2112.3%*	*-643.6%*	*50.9%*	*93.7%*	*98.9%*
Depreciation + Amort	0.00	0.00	0.00	0.00	0.00	0.00	0.0	0.0	0.0	0.0	0.0	0.0
% of Revenue	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
SG&A	1228.20	1293.37	1304.86	1246.98	1213.52	1230.00	0.0	0.0	0	3689	4926	4925
% of Revenue	*262.3%*	*235.3%*	*224.7%*	*210.9%*	*286.4%*	*205.0%*	*0.0%*	*0.0%*	*0.0%*	*233.3%*	*254.9%*	*200.9%*
GW Amort, Restructuring, other							-	-				
% of Revenue												
Total Operating Expenses	1228.20	1293.37	1304.86	1246.98	1213.52	1230.00	0.0	0.0	0	3689	4926	4925
% of Revenue	*262.3%*	*235.3%*	*224.7%*	*210.9%*	*286.4%*	*205.0%*	*0.0%*	*0.0%*	*0%*	*233%*	*255%*	*201%*
Operating Income -	**-759.9**	**-748.4**	**-732.0**	**-674.3**	**-790.5**	**-649.0**	**-410.8**	**-2377.2**	**-1994**	**-2883**	**-3114**	**-2502**
Operating Margin	*-162.3%*	*-136.1%*	*-126.0%*	*-114.1%*	*#N/A*	*-108.2%*	*-1979%*	*-2112%*	*-644%*	*-182%*	*-161%*	*-102%*
NON-OPERATING ITEMS												
Non operating Income/Expense	2	1	1	-2	-3	-2	1.4	-61.1	-1435	72	8	-3
% of Revenue	*0.46%*	*0.26%*	*0.20%*	*-0.32%*	*-0.69%*	*-0.33%*	*6.71%*	*-54.25%*	*-463.29%*	*4.54%*	*0.43%*	*-0.12%*
Tax Provision	0.0	0.0	0.0	0.0	0.0	0.0	0.80	0.0	1	1	0.0	0
Effective Tax Rate												
Net Income -	**-757.73**	**-746.98**	**-730.79**	**-676.23**	**-793.40**	**-651.00**	**-410.18**	**-2438.21**	**-3429.7**	**-2812.2**	**-3105.9**	**-2505.0**
Net Income Margin	*-161.8%*	*-135.9%*	*-125.8%*	*-114.4%*	*-187.2%*	*-108.5%*	*-1975.8%*	*-2166.5%*	*-1107%*	*-178%*	*-161%*	*-102%*
EARNINGS PER SHARE												
EPS - Basic	-$0.01	-$0.01	-$0.01	-$0.01	-$0.01	-$0.01	-$0.01	-$0.06	-$0.08	-$0.06	-$0.05	-$0.04
EPS - Diluted	-$0.01	-$0.01	-$0.01	-$0.01	-$0.01	-$0.01	-$0.01	-$0.06	-$0.08	-$0.06	-$0.05	-$0.04

Ken Nagy, CFA Zacks Investment Research 12/18/2012

HISTORICAL ZACKS RECOMMENDATIONS



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